Education Fund

- FTS fits legal definition of "discount" under the Act
  - » Section 254(h)(1)(B) addresses "rates less than the amounts charged for similar services to other parties" as the equivalent of the term "discount"
- FTS is not a "block grant"
  - » All schools receive their share of allocated funds
- FTS approach provides equity among schools
  - » Even unconnected schools can use their allocated funds as "start-up" to ensure connectivity
  - » FTS provides the equivalent of an "E" rate by schools applying allocated funds to achieve 100% discount for selected services.

Education Fund

- Example of services schools can obtain at 100% discount based on $1,000 per month FTS allocation
  - » 28 exchange lines
  - » 10 ISDN lines
  - » 1-2 Megalink (1.544 mbps) lines
  - » 7 Frame Relay lines

Education Fund

- Fund size must be reasonable and predictable
  - » FTS approach provides mechanism to gain predictability (as opposed to an open-ended discount approach).
  - » Kickstart model provides reasonable basis for fund size.
- Funds provided to K-12 schools and libraries can be used to purchase any telecommunications service designated as an eligible service by the Commission, as defined in the Act.

Education Fund

- Services eligible for discounts limited to telecommunications services as defined by the Act
  - » "Telecommunications" is defined as transmission between points (i.e., transport services)
- Non telecommunications services are excluded
  - » Inside wiring must be addressed outside the universal service fund

Education Fund

- Overall approach
  - » Flexible Discount arrangement (Funds-to-Schools)
    - – Establish fund size based on KickStart model
    - – Allocate fund dollars to schools
    - – Allocation can be modified to reflect income level, population density, etc.
    - – Schools can aggregate funds on school district or higher basis to further coordinate purchases (more market power)

Education Fund

- Schools may use fund dollars for any available telecommunications service included in definition (not just the services which were the basis for determining the size of the fund).
- Services purchased at tariff (or market) rates
- FTS approach incents providers to compete for school funds - drives prices toward market level

- Bona Fide service request process
  - » Minimizes uneconomic or untimely requests
  - » Allows coordination of requests as part of an overall education plan
  - » Most states in BellSouth region already have a statewide technology plan requiring either a district-based or school-based technology plan

Education Fund

- Funding
  - » Explicit funding required by Act
  - » Surcharge on customer bills for all providers of Interstate service
  - » Federal universal service support mechanism may cover Intrastate services

Education Fund

- Relation of interstate and intrastate mechanisms
  - » Section 254(c)(3) definition of services should not encompass an unlimited quantity of services or an unlimited amount of support.
  - » Amount of allotted federal universal service support available for each school under Section 254(h)(1)(B) would be determined by Commission for interstate services and by each state for intrastate services, with the maximum combined amount as determined by the Commission under Section 254(c)(3).
  - » Section 254(f) permits states to provide universal service support over and above the federal fund size, or to establish additional definitions and standards, as long as they are "specific," "predictable," and "sufficient" so as not to rely on or burden federal universal service support mechanisms.

Education Fund-Library

- Library Fund similar to Education
  - » Size determined by KickStart type calculation
  - » Allocate dollars on per library basis with variations to address rural, urban or low income distributions
  - » Flexible discount methodology provides customer flexibility to determine needs and level of discount for each service

Health Care

- Services to be provided in rural areas at rates reasonably comparable to urban rates
- Any difference to be credited toward contribution to universal service fund
- Recommend Transport of up to DS1 speeds as definition

Advanced Services

- Basic telephone service line and modem allows access to the Internet and Advanced Services
- Deployment of Advanced services should not be mandated. The marketplace should be allowed to provide them in a timely and efficient manner
- Section 706 Notice of Inquiry
  - » FCC must initiate within 2 1/2 years from enactment of 1996 Act (by August 8, 1998)
  - » NOI must be completed within 6 months

Description of the Proxy Cost Approach

Step 1 - Determine Affordability Benchmark Rates

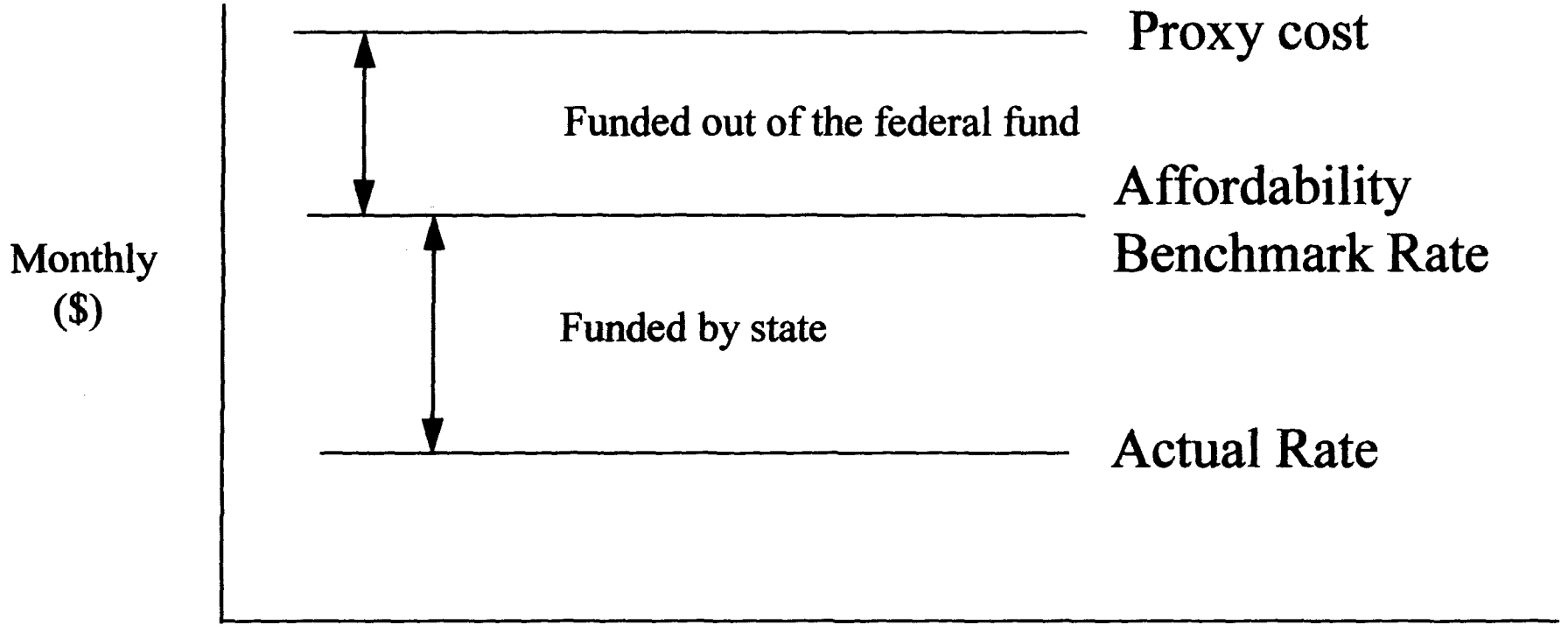
Step 2 - Calculate proxy costs for small areas

Step 3 - Calculate Federal support and state support per attached examples

Step 4 - Calculate total support for each local exchange company

Step 5 - Require rate reductions to offset net universal service support. Revenue neutrality upon implementation is essential.

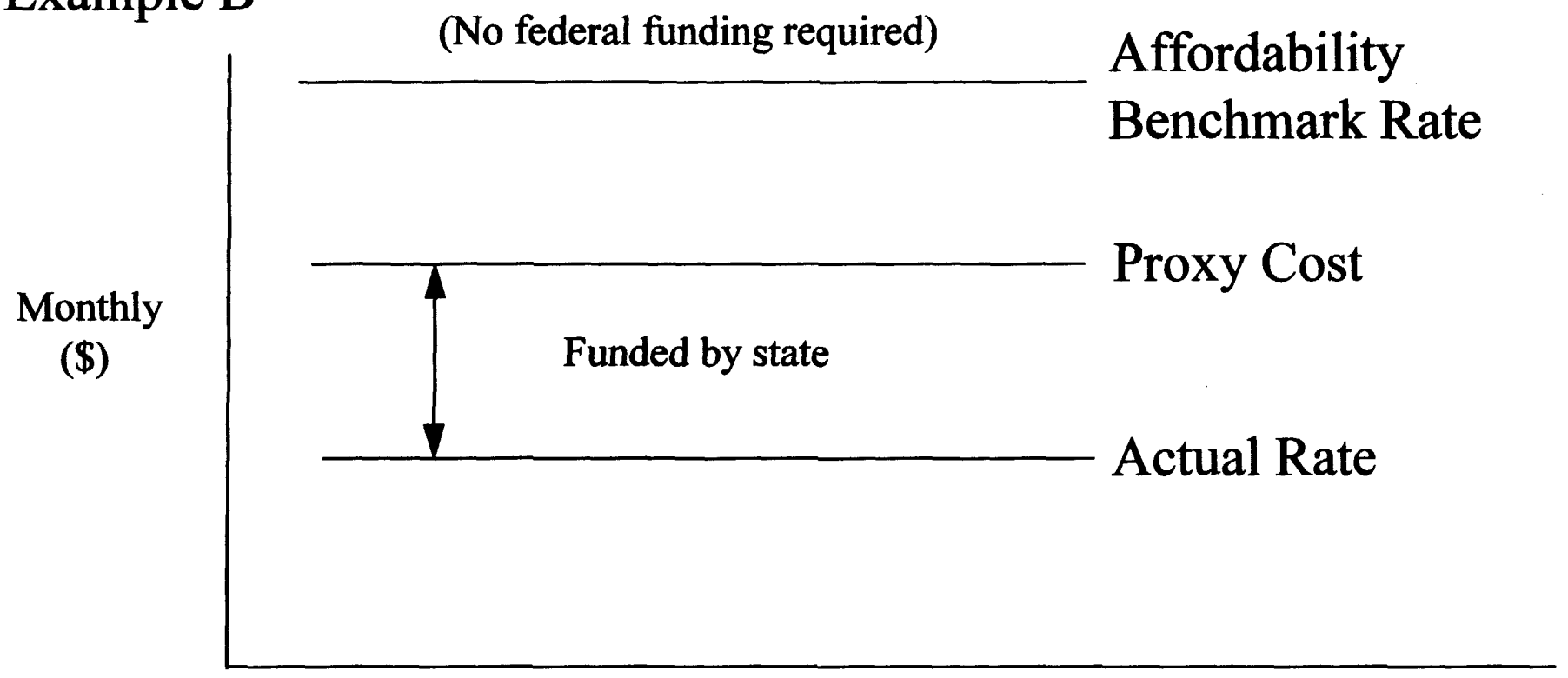
Example A



Example A:

In this scenario, funding is provided out of the federal universal service fund for the difference between the proxy cost and the affordability benchmark rate. The state is responsible for funding the difference between the affordability benchmark rate and the actual rate. It should accomplish this by establishing an intrastate universal service fund.

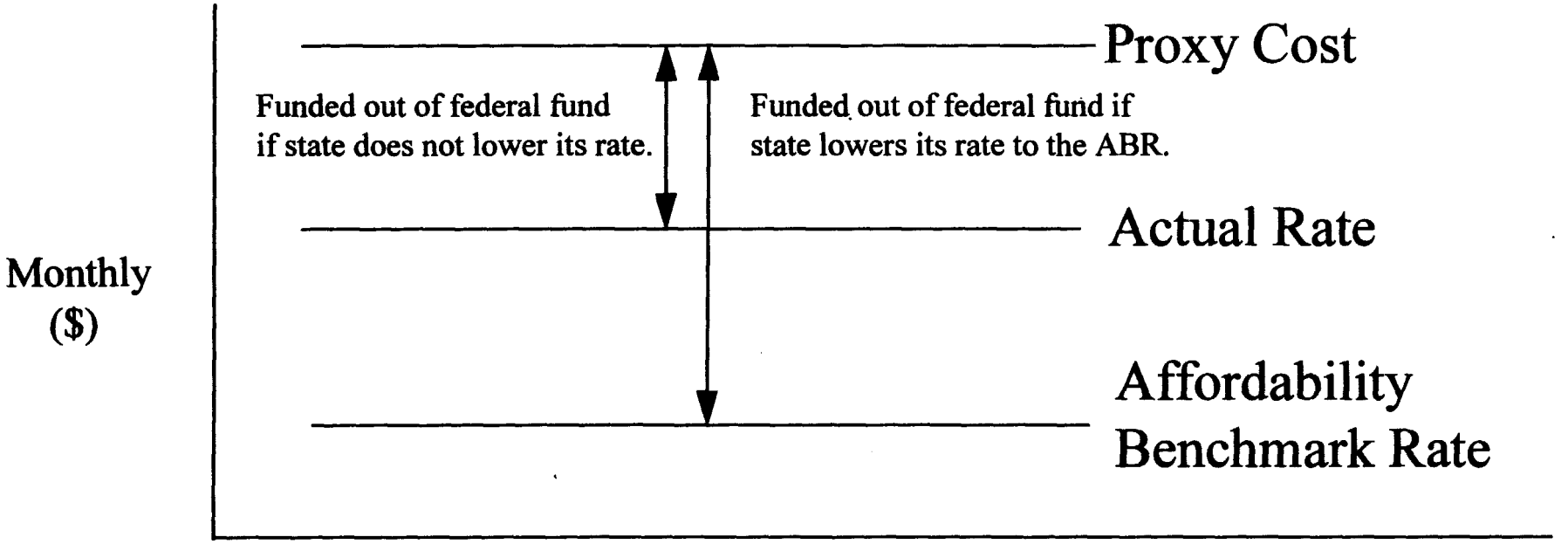
Example B



Example B:

In this scenario, the affordability benchmark rate is above the proxy cost. Therefore, no funding out of the federal support mechanism is required. The state is responsible for funding the difference between the cost generated by the proxy model and the actual rate. This should be accomplished via an intrastate universal service fund.

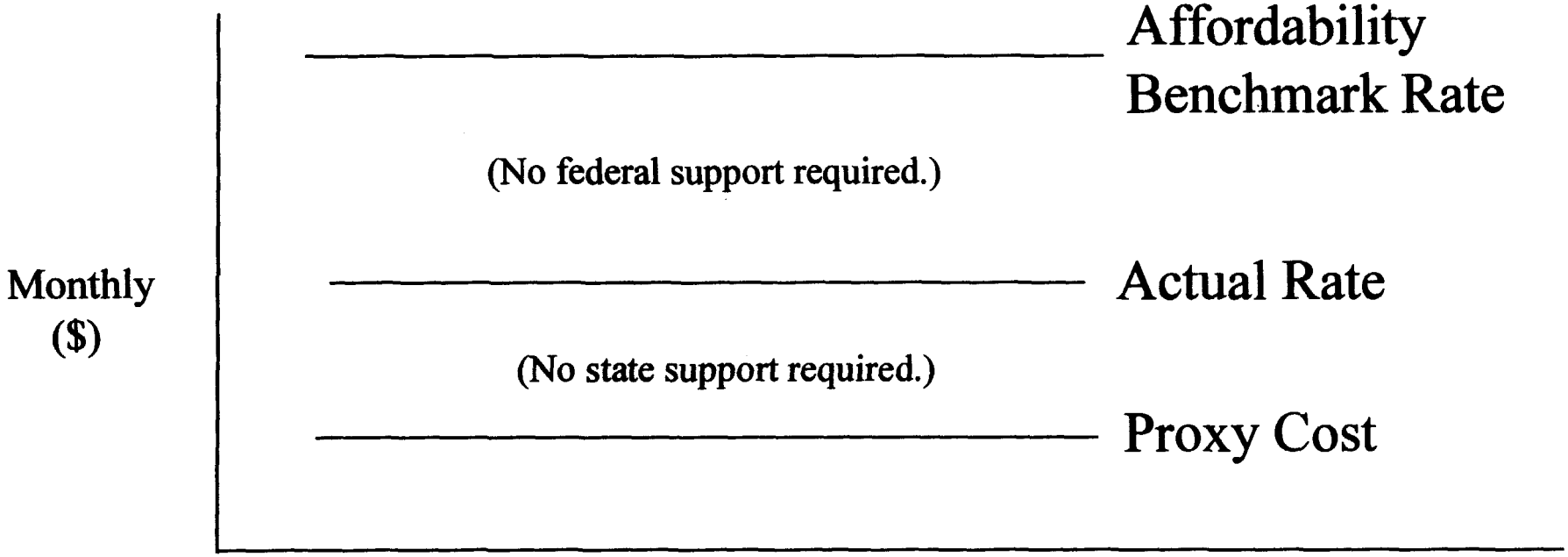
Example C



Example C:

In this scenario, which will probably be rare, the state has a rate that is actually above the affordability benchmark rate (ABR). The state should then have a choice. It can lower its rate to the affordability benchmark rate and receive federal support for the difference between the proxy cost and the affordability benchmark rate. Or, it can leave local rates where they are and receive federal support for the difference between the actual rate and the proxy cost. The state may choose this latter alternative if it believes local conditions justify a rate higher than is produced by the affordability benchmark rate calculations (which do not take into account local conditions). Under either approach, there would be no need for intrastate universal service support.

Example D



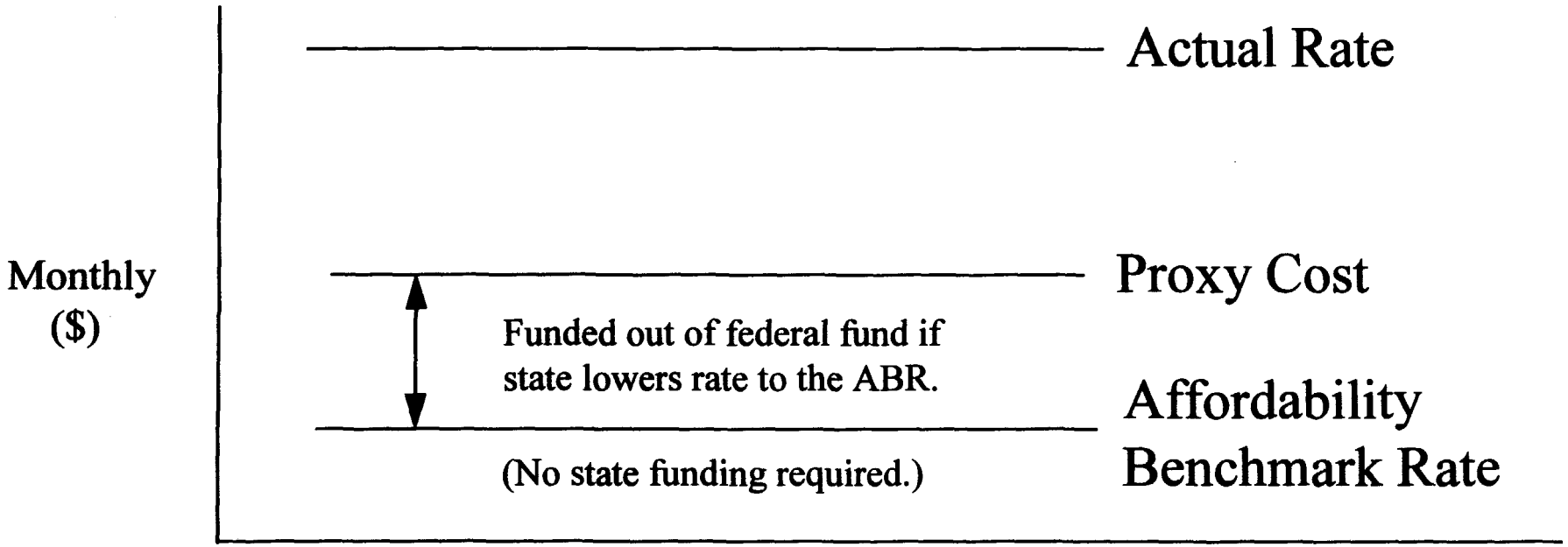
Example D:

In this scenario, the proxy cost is below both the affordability benchmark rate and the actual rate. As such, no universal service support is required out of the federal fund or the state fund.

If the proxy cost is truly indicative of actual costs, then competition will drive down the actual rate towards the proxy cost.

Note: The above outcome would also occur when the actual rate is higher than the affordability benchmark rate, and both are higher than the proxy cost.

Example E



Example E:

In this scenario, the actual rate is above both the proxy cost and the affordability benchmark rate. If the state chooses to do so, it could lower its rate to the affordability benchmark rate (ABR) and receive support out of the federal fund for the difference between the proxy cost and the ABR. Or, it could leave rates where they are and receive no federal support. As in example D, if the proxy cost is truly indicative of actual costs, then competition will drive down the actual rate towards the proxy cost.

In any event, there is no need for an intrastate fund in this scenario.